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MERCANTILE STORES COMPANY, INC.

ANNUAL REPORT

JANUARY 31st, 1944

MRS
CORP. FILE

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH

LINDSAY BRADFORD

ASHTON HAWKINS

HAROLD W. JOCKERS

F. G. KINGSLEY

FREDERICK H. MESERVE

GERRISH H. MILLIKEN

MINOT K. MILLIKEN

ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*

HAROLD W. JOCKERS, *President*

A. D. CHURBUCK, *Vice-President*

W. A. JONAS, *Vice-President*

FREDERICK H. MESERVE, *Vice-President*

MORGAN A. CASEY, *Treasurer*

ASHTON HAWKINS, *Secretary*

Transfer Agent

BANKERS TRUST COMPANY
New York

Stores Owned by

MERCANTILE STORES COMPANY, INC.

J. BACON & SONS
LOUISVILLE, KY.

THE CASTNER-KNOTT DRY GOODS CO.
NASHVILLE, TENN.

THE FAIR STORE COMPANY
CINCINNATI, OHIO

HENNESSY COMPANY
BUTTE, MONT.

THE JONES STORE CO.
KANSAS CITY, MO.

THE JOSLIN DRY GOODS COMPANY
DENVER, COLO.

THE LAZARUS STORE, INC.
WILKES-BARRE, PA.

THE LION DRY GOODS COMPANY
TOLEDO, OHIO

THE MacDOUGALL & SOUTHWICK CO.
SEATTLE, WASH.

THE McALPIN CO.
CINCINNATI, OHIO

MONTGOMERY FAIR
MONTGOMERY, ALA.

THE PEOPLES STORE COMPANY
TACOMA, WASH.

ROOT DRY GOODS COMPANY
TERRE HAUTE, IND.

THOMAS C. WATKINS, LTD.
HAMILTON, ONT., CANADA

J. B. WHITE & CO.
AUGUSTA, GA.

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware,
April 12, 1944.

To the Stockholders of
Mercantile Stores Company, Inc.:

The consolidated balance sheet of your company and its subsidiaries at January 31, 1944, and statement of consolidated profit and loss and surplus for the year ended that date are submitted herewith.

The net profit after all taxes for the current year was $1,424,114.62, or $9.37 per share, compared with $1,221,619.43, or $8.22 per share, for the preceding year. The profit for the current year before provisions for taxes based on income amounted to $4,700,874.62, an all time record, compared with $3,340,264.60, for the preceding year. Provisions for Federal, State, and Canadian income and excess profits taxes amounted to $3,276,760.00 compared with $2,118,645.17.

Dividends of $7.00 per share on preferred stock and $2.50 per share on the common, an aggregate of $405,106.00, were paid during the year. Earned surplus increased from $1,668,102.55 to $2,687,111.17.

Net sales, including sales of leased departments, amounted to $50,277,807.20, an increase of 22.11% over the $41,173,112.82 reported for the preceding year.

The ratio of current assets to current liabilities on January 31, 1944 was 3.3 to 1 compared with 3.4 to 1 last year.

Inventories as of January 31, 1944 were $6,956,591.05 compared with $6,623,978.34 for the previous year.

Inventory turnover increased from 5.30 to 5.60.

The management is conscious of the effect that war conditions have had on the quality of merchandise. We have promptly taken steps to eliminate from inventory those items which have not found ready acceptance with our customers, and this policy will be continued. The management feels that the inventory is well assorted and not excessive under prevailing conditions. We recognize, however, that certain merchandise that has customer acceptance now will not have such acceptance when better merchandise is available. It will be necessary to make prompt adjustments at that time.

The management believes that accounts receivable are in a satisfactory condition. Reserves for doubtful accounts have been maintained at the same level in spite of a substantial reduction in the customers' accounts. Our cash sales have increased considerably. Our term loan was reduced from $1,600,000.00 to $1,200,000.00.

Tax Anticipation Notes amounting to $2,500,000.00 were purchased. Our policy has been to maintain the physical plants in good state of repair, and $403,672.63 was spent for this during the current year. The Company made capital expenditures of $281,732.54 for new fixtures and other equipment during the last year.

On April 10, 1944, the Board of Directors adopted a resolution calling for the redemption, by lot, of fifteen hundred (1,500) shares of the outstanding preferred stock of the Company, at the price of One Hundred and Five Dollars ($105.00) per share, on May 20, 1944, with unpaid accrued dividends thereon to said date. Appropriate notices are being sent to the preferred stockholders.

The management desires to express its sincere appreciation of the loyalty and cooperation of the Company's employees.

BY ORDER OF THE BOARD OF DIRECTORS

F. G. KINGSLEY,
Chairman of the Board

MERCANTILE STO

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AND SUBSIDIA

CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 3,652,069.81
Customers' accounts receivable—		
Regular retail terms	$1,530,230.38	
Installment terms, including installments maturing after one year	986,328.59	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $109,130.68 at January 31, 1944)	50,000.00	
	$2,566,558.97	
Less—Reserves for doubtful accounts (including reserves applicable to accounts sold)	722,922.01	1,843,636.96
Estimated amount recoverable under insurance policies for losses incurred		275,000.00
Due from suppliers, etc.		251,158.64
Merchandise inventories, priced on the basis of cost or market, whichever is lower, as determined by the retail inventory method		6,956,591.05
TOTAL CURRENT ASSETS		$12,978,456.46
OTHER ASSETS:		
Post-war refund of excess profits taxes	$ 341,131.43	
United States Government securities deposited in escrow as guarantees of performance under leases—at cost (quoted market value, $183,408)	179,799.23	
Miscellaneous securities	8,821.45	529,752.11
FIXED ASSETS:		
Land and buildings owned, buildings on leased ground and leaseholds (property of a net book value of $241,865.57 is pledged to secure performance under a lease)—at cost, less reserve for depreciation of $2,657,925.67	$4,142,113.90	
Store fixtures—at cost, less reserve for depreciation of $1,648,199.82	1,575,141.36	
Delivery equipment—at appraised values as determined by the management	29,751.00	
	$5,747,006.26	
Land and buildings not used in store operations—at cost, less reserve for depreciation of $52,557.81	197,135.05	5,944,141.31
UNEXPIRED INSURANCE PREMIUMS, PREPAID RENT, ETC.		399,838.55
		$19,852,188.43

NOTES:

(1) Surplus of $661,130.94 is restricted by reason of purchase of treasury stock

(2) Certain of the Company's subsidiaries have made applications under Sect puting excess profits taxes. If favorably acted upon these applications wo not possible to predict the outcome of the applications.

ES COMPANY, INC.

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RY COMPANIES

SHEET—JANUARY 31, 1944

LIABILITIES

CURRENT LIABILITIES:		
Current maturities of notes payable to bank		$ 400,000.00
Accounts payable		1,070,632.08
Accrued taxes (other than Federal income), salaries, rent and interest		1,262,848.72
Preferred stock dividend payable February 15, 1944		9,044.00
Reserve for Federal income and excess profits taxes, subject to review by U. S. Treasury Department	$ 3,677,323.05	
Less—United States Treasury Tax Savings Notes and accrued interest thereon	2,502,054.40	1,175,268.65
Reserve for conversion of net current assets of Canadian subsidiary		45,300.00
TOTAL CURRENT LIABILITIES		$ 3,963,093.45
NOTES PAYABLE TO BANK, due $200,000 semiannually beginning June 30, 1944, guaranteed by Mersco Finance Corporation, a subsidiary company consolidated	$ 1,200,000.00	
Less—Current maturities included in current liabilities	400,000.00	800,000.00
RESERVES:		
For Federal income tax which may be payable in future years on gross profit deferred for Federal income tax purposes	$ 78,000.00	
For redemption of trading stamps issued prior to 1937	53,780.91	131,780.91
DEFERRED CARRYING CHARGES ON INSTALLMENT ACCOUNTS		56,141.01
CAPITAL STOCK AND SURPLUS:		
Capital stock—		
Preferred stock—7% cumulative, $100 par value—callable at $105—Authorized and issued, 10,410 shares (5,168 shares outstanding and 5,242 shares held in treasury)	$ 1,041,000.00	
Common stock—no par value (stated value, $36.66⅔ per share)—Authorized and issued, 158,238 shares (148,122 shares outstanding and 10,116 shares held in treasury)	5,802,060.00	
Surplus prior to February 1, 1935, per attached statement	6,257,633.78	
Earned surplus since February 1, 1935, per attached statement	2,687,111.17	
	$15,787,804.95	
Deduct—Treasury stock (3,764 shares of preferred and 10,116 shares of common stock, at par or stated value, and 1,478 shares of preferred stock, at cost)—		
Preferred stock, 5,242 shares	$515,711.89	
Common stock, 10,116 shares	370,920.00	886,631.89	14,901,173.06
		$19,852,188.43

until such stock is sold or canceled.

on 722 of the Internal Revenue Code for adjustment of their earnings bases for com-
uld result in a reduction of the current and prior years' Federal taxes on income. It is

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS
For the Year Ended January 31, 1944

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

Net sales, including sales of leased departments		$50,277,807.20
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $463,142.22		45,761,549.79
Net operating profit		$ 4,516,257.41
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)		219,260.70
		$ 4,735,518.11
Deduct—Interest expense		34,643.49
Profit before taxes based on income		$ 4,700,874.62
Provisions for taxes based on income:		
Federal income tax	$ 788,000.00	
Federal excess profits tax (less post-war refund of $260,000.00)	2,340,000.00	
State and Canadian taxes (less post-war refund of $24,000.00)	148,760.00	3,276,760.00
Net profit carried to earned surplus		$ 1,424,114.62

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1943	$ 6,257,633.78

(No change occurred in this account during the year ended January 31, 1944)

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1943		$ 1,668,102.55
Net profit for the year ended January 31, 1944		1,424,114.62
		$ 3,092,217.17
Dividends declared:		
Preferred stock—$7.00 per share	$ 36,176.00	
Common stock—$2.50 per share	368,930.00	405,106.00
Balance, January 31, 1944		$ 2,687,111.17

ARTHUR ANDERSEN & CO.

67 WALL STREET
NEW YORK

TO THE BOARD OF DIRECTORS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1944, and the statements of consolidated profit and loss and surplus for the year ended that date. In connection therewith we have examined or tested accounting records and other supporting evidence of the Company and certain of its more important subsidiaries, without making a detailed audit of the transactions, and have reviewed the system of internal control and the accounting procedures of such companies, by methods and to the extent we deemed appropriate; except that, in order to avoid possible unfavorable reception on the part of customers, we have, at the request of the management, omitted, as in prior years, the confirmation of accounts receivable by direct communication with customers.

The total assets of the companies and branches whose records we examined represented 70.14% of the total consolidated assets, and the net sales of such companies and branches represented 61.57% of the total consolidated net sales. The accounts of the subsidiary companies whose records we did not examine are included in the consolidated statements on the basis of company reports which were reviewed by us.

In our opinion, subject to the exception stated in the first paragraph hereof with respect to confirmation of receivables, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus present fairly the position of the companies at January 31, 1944, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
April 3, 1944.

MERCANTILE STORES COMPANY, INC.

NET SALES

Six Year Period Ended January 31, 1944

Year Ended	*Amount*	*% Increase*
January 31, 1944	$50,277,807	22.11
January 31, 1943	41,173,113	18.08
January 31, 1942	34,867,853	18.16
January 31, 1941	29,509,394	6.84
January 31, 1940	27,619,565	8.45
January 31, 1939	25,467,539	*10.00**

COMPARATIVE PROFITS

Six Year Period Ended January 31, 1944

Year Ended	*Profit Before Income Taxes*	*Income Taxes*	*Net Profit*
January 31, 1944	$4,700,875	$3,276,760	$1,424,115
January 31, 1943	3,340,264	2,118,645	1,221,619
January 31, 1942	1,912,941	812,164	1,100,776
January 31, 1941	939,991	278,547	661,443
January 31, 1940	274,646	72,059	202,586
January 31, 1939	*486,264**	3,850	*490,114**

NET PROFIT PER SHARE OF COMMON STOCK

Six Year Period Ended January 31, 1944

Year Ended	*Net Profit per Share of Common Stock*
January 31, 1944	$ 9.37
January 31, 1943	8.22
January 31, 1942	7.30
January 31, 1941	4.28
January 31, 1940	1.11
January 31, 1939	*3.63**

* Italics indicate loss or deficit.

MERCANTILE STORES COMPANY, INC.

DIVIDENDS PAID AND EARNED SURPLUS

Six Year Period Ended January 31, 1944

Year Ended	*Dividends*		*Earned Surplus (End of Year)*
	Preferred	*Common*	
January 31, 1944	$36,176	$368,930	$2,687,111
January 31, 1943	37,133	361,255	1,668,102
January 31, 1942	40,187	290,444	844,871
January 31, 1941	41,732	289,612	74,726
January 31, 1940	42,504	.....	*255,372**
January 31, 1939	46,907	.....	*415,455**

* Italics indicate loss or deficit.

BOOK VALUE PER SHARE OF COMMON STOCK

Six Year Period Ended January 31, 1944

Year Ended	*Book Value per Share of Common Stock*
January 31, 1944	$96.94
January 31, 1943	92.01
January 31, 1942	85.80
January 31, 1941	80.71
January 31, 1940	78.54
January 31, 1939	75.88

NET CURRENT ASSETS (WORKING CAPITAL) PER COMMON SHARE

Six Year Period Ended January 31, 1944

Year Ended	*Net Current Assets (Working Capital)*	*Net Current Assets per Share of Common Stock*
January 31, 1944	$9,015,363	$57.20
January 31, 1943	8,442,467	54.80
January 31, 1942	8,254,926	52.70
January 31, 1941	6,158,589	38.33
January 31, 1940	5,861,791	36.21
January 31, 1939	5,891,555	35.06